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business review

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FEDERAL

RESERVE BANK OF

PHILADELPHIA

CREDIT UNIONS: SELF-HELP CREDIT

Credit unions are made up of people with a common bond; they are cooperatives, not in business for profit. Despite rapid growth, they are small and likely to stay small; but so long as credit unions help people, they will flourish.

NEW COST-OF-LIVING INDEXES

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SELECTED FEDERAL RESERVE PUBLICATIONS, FILMS, AND RELEASES

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CURRENT TRENDS

High level business activity supports continued optimism.

Additional copies of this issue are available upon request to the Department of Research, Federal Reserve Bank of Philadelphia, Philadelphia 1, Pa.

CREDIT UNIONS: SELF-HELP CREDIT

Credit unions are different from most other kinds of financial institutions. But unless you look at them closely it's hard to put your finger on just what the difference is. Credit unions do many of the things other institutions do. They take in savings, make loans, pay dividends. The basic idea is not particularly unique—savers buy shares in the credit union and borrowers draw on these savings. The shareholders own the credit union, manage its affairs, and divide the profits among themselves. In these respects credit unions are much like savings and loan associations, and even somewhat like mutual savings banks and mutual insurance companies.

But credit unions differ from other financial institutions in two important respects. They are made up solely of groups of people with a common bond—people who work in the same company, have the same religion, live in the same community, or have something else in common which gives the group a sense of unity. And they differ in the basic objective of their activities; they are not in business for a profit. They are cooperatives and have behind them a desire on the part of their members to help one another. They are often organized by one or a few people fired with enthusiasm for—and willing to give their time without pay to further—the principles of credit unionism.

This brief description will give you some idea of what credit unions are like. The rest of this article fills in details, particularly about credit unions in the three states of Pennsylvania, New Jersey, and Delaware, which include the Third Federal Reserve District.

Some figures on credit unions

In 1951, the latest year on which figures are available, there were over 1,000 credit unions in the three states. They had more than half a million members, $100 million of assets, $89 million of shares, and $52 million of loans outstanding. This region had 9 per cent of the credit unions in the United States and approximately the same proportion of the country's members. Credit unions are most prevalent in industrial areas, such as this district, because a large proportion of credit union members are industrial workers.

It is almost impossible to give an accurate thumb-nail sketch of a typical credit union because they come in all sizes. The largest credit union in the Third District — the Philadelphia Teachers Credit Union—has over 7,000 members and assets of more than $3 million. At the other extreme are credit unions of only a few members and with assets of only a few thousand dollars.

The figures in the condensed balance sheet and income statements on the opposite page, although they bury these wide differences, nevertheless show the nature of credit union activities.

The most obvious fact these figures show is that the average credit union is quite small. It had, in 1951, only 514 members and made only 326 loans. The average loan was less than $300 and the average member owned shares worth about $170.

The figures also show where the money comes from and where it goes. The great bulk of the funds coming into credit unions is from member purchases of shares. Credit unions also may

HUMAN INTEREST ANGLE

Cold facts and figures can't convey the human side of credit unions—or any other financial institution, for that matter—since credit unions are run by people and deal with people. So we asked a man who has had years of experience as treasurer of a credit union to give us case examples which were most vivid in his memory. Naturally, the more routine the loan the less likely he would be to remember it, so that the following examples are far from typical. It should not be inferred, of course, that managers of other credit granting institutions do not have similar cases. The unusual examples are cited merely to illustrate the kinds of problems that credit unions handle.

Case No. 1

Mrs. S., it turned out, had made an unfortunate marriage. Before her husband left her she had mortgaged her home, her mother's home, and had borrowed from every small loan company in the area to meet her husband's bills. She had reached a point where, according to a neighbor, she was threatening suicide. This situation came to the attention of her boss. He related the problem to the treasurer of the credit union; and the treasurer set about finding a solution. He agreed to consolidate all her debts —$3,500 worth—and give her a five-year loan. He insisted, however, that she permit him to budget her pay check for her and that she live with her mother until the debt was paid. At the end of five years, Mrs. S. was out of debt. She has since been happily re-married.

Case No. 2

Mr. G., a janitor, had a life-long ambition to be in business for himself. For years he looked for opportunities and finally spotted one when he found a good location for a hoagie shop. He needed equipment and inventory so he went to the treasurer of the credit union for a loan. He got the loan, the shop was a success, and recently the former janitor opened a second hoagie shop.

Case No. 3

Miss R. had been supporting herself and three brothers ever since they lost their jobs in the early days of the depression; her brothers apparently were able, but unwilling, to work. Suddenly Miss R. became sick and was bedfast for a month with no sign of recovery. The doctor said she would have to go to Arizona for at least six months. The treasurer of the credit union was called in to help with the financing. He agreed to lend her $1,000 but on the condition that her three brothers would get jobs and agree to live away from her until the loan was repaid. The brothers went to work, Miss R. recovered, paid off the loan, and today is living happily—alone.

These are stories balance sheets do not tell.

(Figures are for December 31, 1951 or for the year 1951)	The "average" credit union in Pa., N. J. and Del.
Number of members	514
Number of loans made	326
ASSETS	
Loans to members	$51,100
Cash	8,600
Other assets	37,500
Total assets	$97,200
LIABILITIES	
Share capital	$86,500
Reserves	3,500
Undivided profits	3,700
Other liabilities	3,500
Total liabilities	$97,200
INCOME AND EXPENSES	
Interest on loans	$ 4,900
Other income	900
Total income	$ 5,800
Total expenses	$ 2,500
Net income	3,300
Dividends paid	1,900

borrow from banks, other credit unions and other sources, but this is a relatively unimportant source of funds. Most of the money coming in is lent to members. Some is held in cash and a fairly substantial proportion is invested in Government securities. Credit unions use some of their money to buy shares in savings and loan associations and a small amount for loans to other credit unions.

It is the loans to members, however, which provide most of the income. The figures indicate an average interest rate of almost 10 per cent on loans made. Expenses eat up a large part of income, but are held down by the fact that officers usually serve for little or no pay, and office quarters are often given by employers. Out of net income, credit unions transfer funds to reserves, retain a substantial proportion, and pay the rest out to shareholders. The average dividend rate comes to a little over 2 per cent, although the range runs from 1½ per cent to 3½ per cent.

According to the law

Credit unions are what they are in large part because of the laws under which they operate. Over four-fifths of the credit unions in the district states are nationally chartered. Eight per cent are chartered by the state of Pennsylvania and 6 per cent by the state of New Jersey. The district states have a higher proportion of nationally chartered credit unions partly because the credit union movement took hold first in the Mid-West, and it was not until the Federal statute was passed in 1934 that the movement spread toward this area. Both Pennsylvania and New Jersey had credit union laws before the Federal credit union act was passed—New Jersey ten years before and Pennsylvania one year before. The state of Delaware has no credit union law and consequently has only Federal credit unions. The general tendency since enactment of the Federal Credit Union Act has been for more charters to be issued under the Federal act than the state acts, particularly since the war.

The major provisions of the laws affecting credit unions in Third District states are summarized in the accompanying table. Federally chartered unions are supervised by the Bureau of Federal Credit Unions within the Federal Security Agency. State-chartered unions are supervised by the respective state departments of banking. Credit unions may be formed by seven or more persons having a common bond of occupation or association of some sort. Each member must subscribe to at least one share of stock which has a small par value.*

*Share holdings in credit unions are not insured, as are bank deposits and savings and loans shares, although a bill has been introduced in Congress to provide for insurance. Most credit unions do, however, provide two other kinds of insurance. The first is a loan insurance which pays off loans of members who die or are disabled. The second is life savings insurance by which a deceased member's family receives his savings in the credit union plus an equal amount of insurance benefits.

CREDIT UNION LAWS

	[redacted]		
[redacted]	1934	1933	1924
[redacted]	Federal Security Agency	State Dept. of Banking	State Dept. of Banking
[redacted]	Any seven persons having a common bond of occupation, or association, or grouped within a well-defined neighborhood.	Any seven citizens of the state having a common bond by reason of occupation within a well-defined district.	Any seven citizens of the state having a common bond of occupation within one county; or members of a church; or employees of Federal, state, or local governments within one county; or residents of small rural areas.
[redacted]	$5.00 each.	Maximum of $10.00 each.	$5.00 each.
[redacted]	May borrow from any source a sum not to exceed 50% of the paid-in and unimpaired capital.	May borrow from any source a sum not exceeding 50% of its assets.	May borrow an amount equivalent to its investments other than share loans or 20% of its share loans, whichever is greater.
[redacted]	Unsecured—$200 or 10% of capital and surplus, whichever is greater, but not exceeding $400. Secured—10% of capital and surplus.	No limit. (Maximum secured or unsecured limit is set by the board of directors of each credit union.)	Unsecured—$250 or 5% of share liability, whichever is greater, not exceeding $300. Secured—$1,000. Secured by new automobile, bonds and securities or life insurance policy to ⅔ value—$1,500.
[redacted]	1% per month on unpaid balances.	6% per annum, when discounted on loans repayable in equal installments, or 12% per annum when calculated on unpaid principal balances.	1% per month on unpaid balances.
[redacted]	Three years.	Not specified.	Not specified.
[redacted]	1. Loans to members. 2. Obligations of the United States. 3. Loans to other credit unions not to exceed 25% of the unimpaired capital and surplus. 4. Shares or accounts of savings and loan associations whose accounts are Federally insured.	1. Loans to members. 2. First mortgages of real estate located in Penna., the terms of which call for amortized payments of the principal and in paid-up shares of bldg. and loan associations and other credit unions organized under Penna. laws not to exceed 25% of its capital. (Loans to other credit unions not to exceed 10% of capital and surplus.) 3. Any investment that is legal for savings banks or for the investment of trust funds under the laws of the Commonwealth.	1. Loans to members. 2. Loans to other credit unions chartered by the state of New Jersey or operating in the state under a Federal charter (not to exceed 20% of its share liability). 3. Any security in which savings banks of New Jersey may invest. 4. Shares of state and Federal savings and loan associations in which shares and accounts are insured.
[redacted]	Entrance fees, fines, and 20% of annual net earnings must be set aside until regular reserve equals 10% of total shareholdings.	Entrance fees and 20% of annual net earnings must be set aside; when the reserve fund equals 10% of outstanding loans to members, annual transfers to reserves may be reduced to 10%; when the reserve fund equals 20% of outstanding loans to members, annual transfers to reserves may be discontinued.	Entrance fees, fines, and 15% of annual net earnings must be set aside.
[redacted]	Exempt from taxation, except that property is subject to taxation to the same extent as other similar property.	Exempt from taxation except for real estate.	Exempt from taxation except for real estate.
[redacted]	Not specified.	Not specified.	6%.

Membership entitles a person to participate in management of the credit union on the basis of one member, one vote. Membership also entitles one to borrow "for provident and productive purposes" from the common fund.

The laws set up fairly definite rules as to loan limitations and the nature of loans themselves. The Pennsylvania law is the most liberal with respect to loan limits. It specifies no particular limit but provides that a maximum may be set by the board of directors of each credit union. The New Jersey law sets a limit of $300 on unsecured loans, $1,000 on secured loans, and $1,500 on loans secured by a new automobile. The Federal law limits unsecured loans to $400 and secured loans to 10 per cent of the paid-in capital and surplus. Under all three laws, interest rates are limited to 12 per cent. Since this must include fees and charges, the effective rate is lower than that charged by many other institutions on personal loans.

State laws are more liberal than the Federal law when it comes to the kinds of investments into which credit unions may put their funds. In addition to loans to members, state-chartered unions in Pennsylvania and New Jersey may make a limited amount of loans to other credit unions and savings and loan associations, and invest in securities which are legal investments for savings banks. In addition, the Pennsylvania law allows limited investment in real estate mortgages. The Federal law provides for loans to other credit unions, investment in insured savings and loan associations, and purchases of Government securities.

Credit unions must set aside certain proportions of their earnings as reserves for bad debts. The New Jersey law is most liberal in this respect, initially; but whereas the Federal and Pennsylvania laws provide for stabilization of the reserve fund after it reaches a certain level, the New Jersey law makes no such provision.

All three acts exempt credit unions from taxation, except for property taxes.

The moving picture

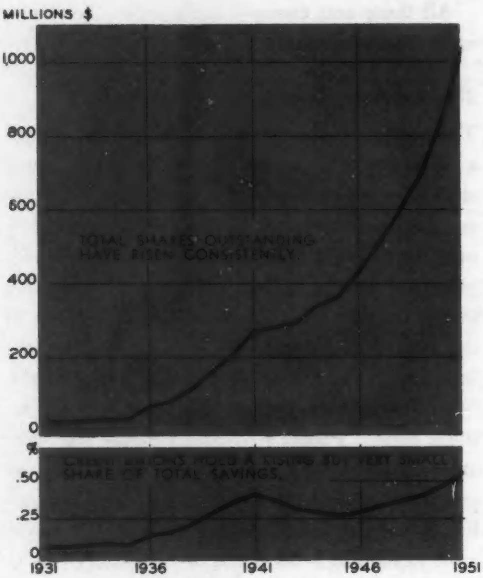
The picture given thus far has been, in effect, a snapshot. But credit unions have not stood still. They are now more numerous, have a larger membership, and make more loans than they ever have before. Credit unions are not the oldest in the family of financial institutions by any means nor are they the youngest. Their life in the United States goes back to 1909 when the first credit union was organized in Manchester, New Hampshire. At that time, similar organizations, called "People's Banks," had been in operation in Germany for half a century. Once the credit union movement had started in this country, though, it was not long before credit unions were expanding—thanks to the energetic efforts of a few people captivated by credit unions as a solution to the loan shark problem.

The credit union movement has grown rapidly during the past quarter of a century. Year after year the figures set new records. Since the end of World War II credit unions have speeded up their growth, reaching a new peak in 1950 with assets of all credit unions in the United States of over a billion dollars. Membership reached a new high of more than 4½ million people.

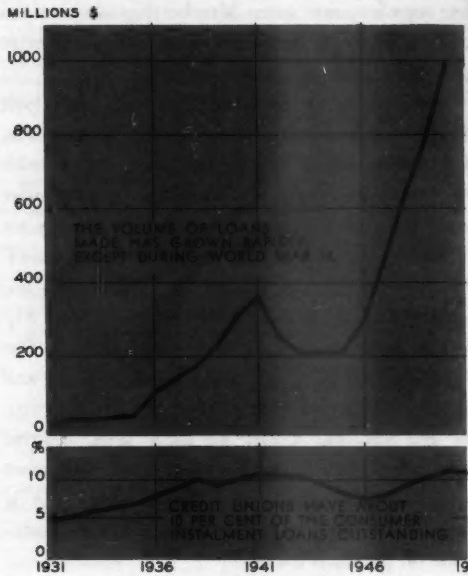
The two charts show the moving picture for credit unions — as recipients of savings and as lenders. As savings institutions, credit unions have enjoyed uninterrupted growth over the twenty years shown. Savings put into credit union shares have increased faster than savings generally during the same period, as indicated by the fact that credit unions' share of total long-term savings of individuals has risen. The

CREDIT UNIONS IN THE UNITED STATES

. . . as saving institutions



. . . as lending institutions



only time their share was not rising was during World War II when United States Savings Bonds were absorbing a large part of total savings.

As lenders also, credit unions have experienced rapid growth. The only break in the upward trend of loans came during the war when shortages of durable goods, consumer credit regulations, and high incomes reduced borrowing. Over twenty years' time, credit unions' share of the consumer instalment loan business has risen generally, although little net change has taken place during the last ten years.

Credit unions in perspective

The two charts also help to put credit unions in perspective. They show that they have grown tremendously, yet still are quite small. This is particularly striking in the savings chart. Despite their rapid growth, credit unions hold only one-half of 1 per cent of total long-term savings of individuals. As lenders, credit unions are equally small if you compare their loans to the total volume of credit extended by all kinds of lenders. A fairer basis of comparison is that shown in the chart—consumer instalment loans (not counting sales credit). Credit unions stand third in the list of instalment lending institutions, surpassed only by commercial banks and small loan companies. They hold about 10 per cent of total consumer instalment loans outstanding.

How fast credit unions will grow in the future is hard to say, but a good guess would be that they will stay fairly small. Credit unions work best when confined to homogeneous groups. They usually need one or more leaders convinced of the principles of credit unionism to start, guide,

and hold the organization together. The truth of this is reflected in the fact that one of the problems of credit unionism is the credit union which is started but never seems to get anywhere.

The future of credit unions also will depend on how well they fulfill a need. Credit unions were started when people could not get credit at what they considered reasonable rates, and they have grown because they have met this need. But much has been done in the past couple of decades to improve the conditions which stimulated the creation of credit unions. Regulation of other lenders has curbed loan sharking. This doesn't mean that many people will not still find it either advantageous to borrow from credit unions rather than some other lenders, or that credit unions may be the only place they can get credit on reasonable terms. But the environment is likely to be less favorable to credit unions in this respect than it was.

One final word to get credit unions in perspective. Despite a rapid growth, they are still small, and perhaps they will stay small; yet the measure of their importance must be more than in dollars or percentages. The essence of credit unionism is that people group together to help each other. As long as credit unions help people—as they helped the people described on the second page of this article—they will continue to be important.

NEW COST OF LIVING INDEXES

Cost of living indexes published by the U. S. Bureau of Labor Statistics have been undergoing revision for the past three years and new figures for January 1953 have just been published. Although the numbers look completely different, the story of price changes they tell is very much the same.

Commonly known as "Cost of Living" indexes but officially termed "Consumer Price" indexes, they are designed to measure changes in the cost of goods and services purchased by city wage-earner and clerical-worker families. Each month the family market basket is priced at retail establishments in selected cities throughout the country and these prices are combined to produce the total index.

The recent revision was made to account for changes that have occurred in consumer buying habits and to improve the general accuracy of the figures by expanding the number of items priced and the number of cities included.

The market basket

The old index was based on consumer buying patterns as they existed in the three-year period 1934-1936. To determine the extent of changes in family buying habits after that date the Bureau of Labor Statistics conducted family expenditure studies from 1947 to 1949 in seven cities. These pilot studies showed that substantial changes had occurred. Based on these findings, interim adjustments were made in the index and similar expenditure studies were conducted in 91 cities in 1950. These later studies were the basis for the final revision just published. They indicated additional items to be priced and a more accurate "weighting" system for combining all the priced items.

More items priced

The number of items priced was increased from about 200 to 225 as a result of the 1947-49 expenditure studies and to more than 300 as a result of the 1950 studies. The index now includes measures of the effect of price changes on costs of home ownership and home maintenance, direct pricing of restaurant meals, the pricing of used cars, and a number of other items not specifically priced in the past.

More cities included

The old and the interim series included data for 34 large cities. The new series will include 46, with a balanced representation of medium-sized and small communities.

New base period

The old and the interim indexes were published using a base of 1935-39 = 100, i.e. prices on any given date were shown in relation to average prices for the five-year period from 1935 through 1939. The new indexes will employ a more up-to-date base of 1947-49 = 100. The adoption of this new post-war base period is consistent with action being taken generally by statistical agencies at the recommendation of the Bureau of the Budget.

This change in base period makes a substantial difference in the appearance of the published numbers but does not alter percentage changes from one date to another derived from the data. The new numbers are considerably lower on the new base because price changes have been much less since 1947-49 than since 1935-39. (See accompanying table.)

Publication changes

The major groups of items for which separate indexes are published have changed. The new index includes eight major group items for publication purposes—food, housing, apparel, transportation, medical care, personal care, reading and recreation, and other goods and services. The six major groups in the old and interim indexes were food; rent; apparel; fuel, electricity and refrigeration; housefurnishings; and miscellaneous.

The old and interim indexes were published for 34 separate cities—10 monthly and 24 quarterly. The new series will be published for only 20 separate cities—5 monthly and 15 quarterly. No change is made in the publication schedule for the two index cities in the Third Federal Reserve District. Monthly indexes will continue to be published for Philadelphia and quarterly data as of February, May, August, and November for Scranton.

Historical comparability

For the past three years, two consumer price indexes have been published: (1) the interim index which includes certain improvements resulting from 1947-49 market-basket studies in seven cities and (2) the old index without these improvements.

The new index beginning January 1953 is linked to the interim index covering the period January 1940 through December 1952, which in turn is linked to the old index for earlier years, thus forming a continuous series dating back to 1913 as formerly.

It was originally planned to discontinue the old indexes as of December 1952 and pricing work was actually ended. However, at the request of the President, these indexes will be re-established for another six months to give labor and management with contracts based on them additional time to make the transition to the new

series. Because pricing work had been stopped, it will take some time to reestablish the pricing necessary for continuation of the old series.

Comparison of the new and old series

Although many improvements have been made in the structure of the index since 1940, these improvements have resulted in little change in the trend of the figures. Annual averages of the new index for the U. S. are given below on the new 1947-49 base, and for comparison with the old series are also shown using 1935-39 as the base period. The comparison shows less than 1 per cent difference between the new and old series in any year.

However, the pricing of additional items, re-

	New Series		Old Series
	1947-49 = 100	1935-39 = 100	1935-39 = 100
1940	59.9	100.2	100.2
1941	62.9	105.2	105.2
1942	69.7	116.6	116.5
1943	74.0	123.7	123.6
1944	75.2	125.7	125.5
1945	76.9	128.6	128.4
1946	83.4	139.5	139.3
1947	95.5	159.6	159.2
1948	102.8	171.9	171.2
1949	101.8	170.2	169.1
1950	102.8	171.9	171.2
1951	111.0	185.6	185.9
1952	113.5	189.8	190.7

weighting of prices, and a discontinuance of some cities and the addition of others beginning in January 1953 may result in greater differences in the future.

SELECTED FEDERAL RESERVE PUBLICATIONS, FILMS, AND RELEASES

The publications, films, and statistical releases listed below have been selected from material available to interested individuals and groups through the Federal Reserve Banks and the Board of Governors of the Federal Reserve System.

PUBLICATIONS OF THE FEDERAL RESERVE BANK OF PHILADELPHIA

The following publications of this Bank may be obtained without charge by writing to:

Department of Research
Federal Reserve Bank of Philadelphia
Philadelphia 1, Pa.

BUSINESS REVIEW. Issued monthly. Contains articles on business and financial topics and on current national and Third Federal Reserve District trends.

THE QUEST FOR STABILITY. An analysis of some of the major problems of our monetary and banking system—past and present—and of attempts to solve them. Discusses why money has not managed itself, objectives and tools of Federal Reserve policy, and current problems. (35 pages.)

INDUSTRY ON THE DELAWARE. A series of articles on the Delaware River valley, its geography, commerce, and industry. Arrival of a large new steel mill on the Delaware is the beginning of developments that may well change the basic character of the valley. (40 pages.)

EXERCISES IN THE DEBITS AND CREDITS OF BANK RESERVES. Designed to meet the needs of students and others interested in the factors affecting bank reserves. Traces open market,

currency, gold, and Treasury transactions by means of simplified "T" accounts. (16 pages. Available in quantity lots for classroom use.)

ANNUAL REPORT OF THE FEDERAL RESERVE BANK OF PHILADELPHIA. A yearly review of economic developments, including special studies of problems of significance to the economy. Covers the volume of the Bank's operations, and contains statements of condition and of earnings and expenses for the year.

SELECTED PUBLICATIONS OF OTHER FEDERAL RESERVE BANKS

The following publications may be obtained without charge by writing to:

Bank and Public Relations Department
Federal Reserve Bank of Philadelphia
Philadelphia 1, Pa.

A DAY'S WORK AT THE FEDERAL RESERVE BANK OF NEW YORK. Illustrated booklet describing in layman's language what Federal Reserve Banks do and how Federal Reserve policies influence the economy. (40 pages. Federal Reserve Bank of New York.)

BANK RESERVES, SOME MAJOR FACTORS AFFECTING THEM. Five articles dealing with reserve requirements of commercial banks and several important influences affecting the level of bank reserves. (28 pages. Federal Reserve Bank of New York.)

MONEY MARKET ESSAYS. Articles discussing the money market, member bank borrowing from Reserve Banks, Federal funds, the commercial paper market, bankers' acceptances, and financing security brokers and dealers. (33 pages. Federal Reserve Bank of New York.)

FEDERAL RESERVE BANK OF CHICAGO: WHAT IT MEANS TO MEMBER BANKS AND TO THEIR CUSTOMERS. Among subjects discussed are the nature of central banking, Reserve Banks and commercial banks, facilities available to member banks, and steps to take in becoming a member. (19 pages. Federal Reserve Bank of Chicago.)

PUBLICATIONS OF THE FEDERAL RESERVE BOARD

A list of Federal Reserve Board publications, releases, and reprints of articles is published in the monthly *Federal Reserve Bulletin.* This list, including the following selections, may be obtained from:

Division of Administrative Services
Board of Governors of the Federal Reserve System
Washington 25, D. C.

ANNUAL REPORT of the Board of Governors of the Federal Reserve System. Issued each year.

FEDERAL RESERVE BULLETIN. Issued monthly. Subscription price is $2.00 per annum or 20 cents a copy. Group subscriptions in the United States for 10 or more copies to one address, 15 cents per copy per month, or $1.50 for 12 months.

FEDERAL RESERVE CHARTS ON BANK CREDIT, MONEY RATES, AND BUSINESS. Issued monthly. $6.00 per annum including edition of historical supplement (listed below) available when subscription is entered or renewed. 60 cents per copy; in quantities of 10 or more copies of a particular issue for single shipment, 50 cents each.

HISTORICAL SUPPLEMENT TO FEDERAL RESERVE CHARTS ON BANK CREDIT, MONEY RATES, AND BUSINESS. Issued semi-annually, usually

April and September. Annual subscription to monthly chart book includes one issue of supplement. Single copies, 60 cents each; in quantities of 10 or more copies for single shipment, 50 cents each.

THE FEDERAL RESERVE SYSTEM—ITS PURPOSES AND FUNCTIONS. 75 cents per cloth-bound copy; in quantities of 10 or more copies for single shipment, 50 cents each. Paper-bound copies available without charge. (125 pages.)

BANKING STUDIES. Comprising 17 papers on banking and monetary subjects by members of the Board's staff. August 1941; reprinted October 1952. (496 pages.) Paper cover. $1.00 per copy; in quantities of 10 or more copies for single shipment, 75 cents each.

FILMS ON THE FEDERAL RESERVE SYSTEM

The following films on the Federal Reserve System may be borrowed without charge for showings to schools, civic, professional, and business groups, and other interested organizations. Bookings may be arranged by writing to:

Bank and Public Relations Department
Federal Reserve Bank of Philadelphia
Philadelphia 1, Pa.

THE FEDERAL RESERVE SYSTEM: ITS ORIGIN, PURPOSE, AND FUNCTIONS. Produced by Encyclopaedia Britannica Films, Inc. Viewing time twenty minutes. A 16 mm. sound, black and white motion film. Opening with a scene between a grocer and his banker during the money panic of 1907, this film gives an historical account of the development of the Federal Reserve System to date and describes how the Federal Reserve System operates to promote stability.

THE FEDERAL RESERVE BANK AND YOU. Produced for the Federal Reserve Bank of Minneapolis. Viewing time thirty minutes. A 16 mm. sound, black and white motion film. In filling a class assignment a student seeks the aid of the president of the local bank, who explains what the Federal Reserve System is, how Reserve Banks operate, and why the System is important to banking and to people in general.

STATISTICS ON LOCAL BUSINESS AND BANKING DEVELOPMENTS

A summary of business and banking in the Third Federal Reserve District compared with the United States and in local areas of the District is published monthly in the *Business Review*. Major business and banking trends for the past two years are charted. Statistical material formerly carried in the *Business Review* is available sooner and in greater detail in the special releases listed below. We shall be glad to fill requests for specific releases. Address requests to:

Department of Research
Federal Reserve Bank of Philadelphia
Philadelphia 1, Pa.

INDUSTRIAL ACTIVITY

FACTORY EMPLOYMENT, PAYROLLS, AND WORKING TIME IN PENNSYLVANIA AND DELAWARE. Released monthly, showing latest trends in factory employment, payrolls, manhours, average weekly and hourly earnings, and average weekly hours worked for industries and areas in the two states.

FACTORY EMPLOYMENT, EARNINGS, AND WORKING TIME IN MAJOR LABOR MARKET AREAS. Separate monthly releases for the fol-

lowing labor market areas, showing latest trends in factory employment, average weekly and hourly earnings, and average weekly hours worked for major industry groups:

Erie	Reading
Harrisburg	Scranton
Lancaster	Wilkes-Barre—Hazleton
Lehigh Valley	Wilmington
Philadelphia	York
Pittsburgh	

ELECTRIC POWER PRODUCTION AND SALES. Released monthly, showing output and sales of electric power, by type, for the Third Federal Reserve District.

RETAIL TRADE

WEEKLY RETAIL SALES. Released weekly, showing sales changes for a representative group of department stores and women's apparel stores in Philadelphia and department stores in the Third Federal Reserve District.

RETAIL TRADE REPORT. Released monthly, showing latest trends in sales and stocks of department stores in the Third Federal Reserve District and seven cities, and women's apparel stores in Philadelphia. The seven cities are:

Philadelphia	Trenton
Lancaster	Wilkes-Barre
Reading	Wilmington
	York

DEPARTMENTAL SALES AND STOCKS. Released monthly, showing changes in departmental sales and inventories for reporting department stores in the Third Federal Reserve District.

RETAIL FURNITURE REPORT. Released monthly, showing changes in sales, accounts receivable, collections, and inventories for reporting stores in the United States and each Federal Reserve District.

FINANCE

CONDITION OF WEEKLY REPORTING MEMBER BANKS IN LEADING CITIES (H.4.2). Released weekly, showing a consolidated balance sheet statement for a regularly reporting group of commercial banks in each Federal Reserve District.

ASSETS AND LIABILITIES OF ALL MEMBER BANKS BY DISTRICTS (G.7.1). Released monthly for the last Wednesday of the month, showing an abbreviated balance sheet statement (partly estimated) for all member banks, by Federal Reserve District.

CONDITION OF THE FEDERAL RESERVE BANKS (H.4.1). Released weekly, showing a detailed balance sheet statement for each Federal Reserve Bank. Also includes, nationally, changes in member bank reserves and related items.

BANK DEBITS—DEBITS TO DEPOSIT ACCOUNTS (G.6). Released monthly, showing debits to deposit accounts (principally check payments) for banks in 342 reporting centers in the United States, including the following 20 cities in the Third Federal Reserve District:

Wilmington	Chester	Philadelphia
Atlantic City	Harrisburg	Reading
Camden	Hazleton	Scranton
Trenton	Johnstown	Wilkes-Barre
Allentown	Lancaster	Williamsport
Altoona	Lebanon	York
Bethlehem	Norristown	

CONSUMER INSTALMENT CREDITS OF COMMERCIAL BANKS (G.18.1). Released monthly, showing estimated amounts of consumer instalment credit extended during the month and outstanding at the end of the month at commercial banks in each Federal Reserve District.

CURRENT TRENDS

With the first quarter of 1953 rapidly passing into history, there is convincing evidence nationally and locally to indicate that businessmen who put their faith in the continuance of a healthy climate for business, at least through March, were quite justified. The ability to maintain a near full-employment status, even in the face of depressing year-end seasonal influences, is being demonstrated. The impact of price decontrol measures, initiated early in February and now largely completed, has been negligible thus far in all but a few markets. Finally, the rise in business inventories, which has occasioned some concern in recent months, appears to have been primarily to replace holdings of durables depleted in last summer's steel strike. Moreover, accumulations were accompanied by an even greater rise in business sales. By the end of January there was some indication that re-stocking had about run its course, at least for the time being.

Production edges up

Nationally, productive activity continued to expand well into February. Total civilian employment decreased no more than seasonally in January and in February it increased about 400,000 to an all-time high for that month of 60.9 million. Operations in the construction industry have been exceeding seasonal expectations with activity in the important housing field continuing at advanced levels for the middle of the winter. Retail sales of soft goods have been somewhat disappointing lately but consumer purchases of durables have held up very well, with a rising trend developing through the first half of February.

In the Philadelphia Federal Reserve District, recent developments in employment, construction, and trade have paralleled trends at the national level. Here, too, the usual mid-winter factors tending to reduce employment in trade, construction, and agriculture have been operative since the turn of the year. But in manufacturing lines, production-worker employment has more than held its own and the very latest data suggest the imminence of a spring upturn. On the basis of building contracts awarded in January, construction activity promises to continue above its year-ago levels. This is especially true in the fields of small home and factory construction. At department stores, January's dollar sales showed no more than a seasonal decline from the record volume of holiday trade, and held a slight edge over those of a year earlier. Throughout February, weekly comparisons with 1952 fluctuated widely but for the month as a whole the margin of increase over a year ago was very well maintained.

Prices are decontrolled

On the price front, it is significant that the over-all wholesale structure has been stable, following a gradual downward trend persisting from early fall until the turn of the year. The principal exception has appeared in livestock markets, where cattle prices declined very sharply in January and early February chiefly as a result of unusually heavy offerings. Price decontrol has been largely accomplished with a minimum

of disturbance in the nation's market places, since it came at a time of high-level industrial production and individual savings, and when many consumer items were selling below their established retail ceilings. Decontrols, applied in successive "package" lots beginning early in February, have officially removed ceilings from all but a few commodities and items comprising the Bureau of Labor Statistics wholesale and consumer price indexes. As expected, price advances have occurred in a few markets, notably in petroleum products, copper, tobacco, and coffee. Consumer prices, meanwhile, had decreased fractionally in January and slightly further in early February, reflecting in large part reductions in food prices.

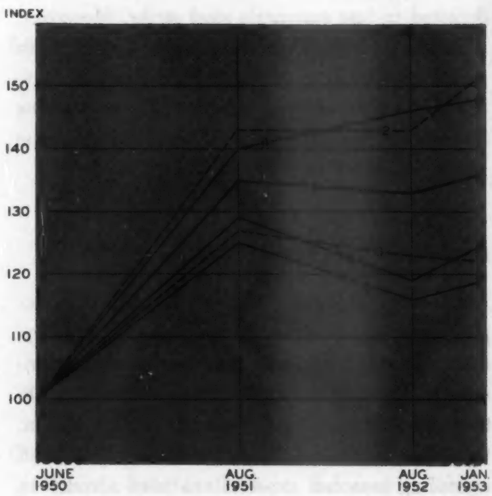
What inventories are doing

An appraisal of the inventory situation as it has developed thus far indicates that successive increases which began late last summer were of a selective nature, primarily for replenishment. They were chiefly in the area of durable goods at factories and stores. What little inventory building occurred in nondurables was of short duration in so far as manufacturers were concerned. It centered in textiles, following a prolonged slump. Retailers replenished supplies of nondurables no more than might have been expected in preparation for the more active fall buying season. Nor were inventory increases at the wholesalers' level at all out of line, suggesting that goods moved promptly from manufacturers to retailers' shelves. Preliminary figures for January indicated a small decline—about $200 million—in total business holdings, despite some continuation of the replenishment process in durable lines.

The inventory increase in the four months ended December 1952 added $2.1 billion to total business holdings, raising them to an all-time high of almost $75 billion. Last fall's increase did not appear excessive and it was considerably less than in the record year following the outbreak of war in Korea. As in the earlier post-Korean period, increased inventory buying was prompted by unusual circumstances. The nation's economic machine was in high gear. Heavy industry, though partially crippled by the steel strike, wanted to stay in high gear. Producers had a substantial defense program to support. The needs of an expanding civilian economy also were far from inconsequential. Retailers, conscious of the approach of the fall season with its not-too-distant Christmas peak, had little choice in the matter either. Thus, the die was cast for

INVENTORY CHANGES

June 1950 = 100



KEY:

1. Total
2. Total Durable
3. Total Nondurable
4. Manufacturing
5. Wholesale
6. Retail

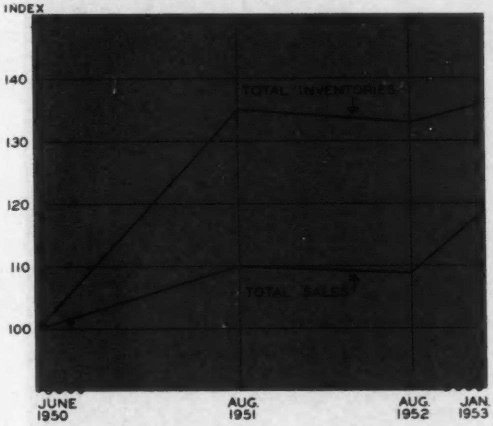
a prompt rebuilding of inventories at both levels but with maximum emphasis on durable goods.

Stepped-up purchasing for inventory was initiated by steel-starved producers of durable goods as soon as the steel strike was settled. While new supplies of raw materials had remained virtually cut off, they had been straining to meet both military and civilian demands. In so doing, these producers had drawn down holdings of purchased materials—their basis for all future operations. Consequently, with so much depending on quick replenishment of stocks at this stage of the fabricating process, purchases rose substantially through the last four months of the year. For manufacturers as a whole, inventory accumulation of purchased materials alone amounted to almost a billion dollars.

Retailers began their program of inventory buying at about the same time manufacturers entered the market for raw materials. In the course of the two-month steel strike, merchants' stocks of automobiles, major appliances, and a wide range of lesser items made wholly or partly of steel had been declining and also were in need of prompt replenishment. Storekeepers' purchases in the last four months of 1952 added about $800 million in durable goods, but additions to stocks of nondurables were less than half that amount.

The most recent behavior of business inventories, relative to sales, differs markedly from the trends prevailing during the Korea-inspired rise. From August 1951 through August 1952, inventories maintained a more or less reasonable and fairly constant relationship to business sales. In the succeeding five months, sales rose more sharply than inventories, which was the reverse of the situation prevailing in the year following

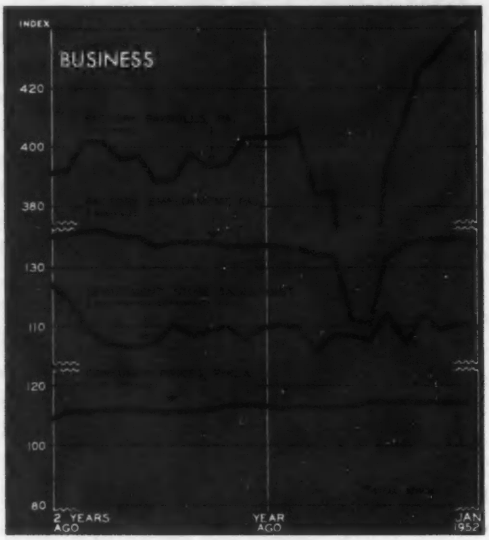
BUSINESS INVENTORIES AND SALES
June 1950 = 100

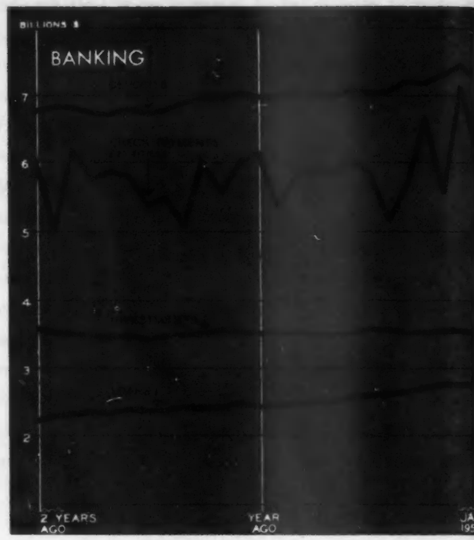


Korea. At that time, business sales increased somewhat erratically along with an uninterrupted rise in business inventories until the early winter of 1951; thereafter sales declined until late summer, while inventory accumulation continued unchecked through August. This situation created a wide disparity between the inventory and sales levels. At the end of January 1953, the $74.6 billion in total business inventories compared with total business sales of $47.6 billion. Nearly a year and a half ago, when the initial post-Korean inventory rise ended, total holdings amounted to $73.8 billion, compared with a sales total of $43.9 billion.

Thus, in both periods, each characterized by unusual circumstances, inventories behaved in a rather similar manner, while sales did not. In the most recent period, a much more orthodox inventory-sales relationship has prevailed. Consequently, this ratio in January 1953 was much lower than when the initial post-Korean inventory rise ended.

FOR THE RECORD...





SUMMARY	Third Federal Reserve District — Per cent change — January 1953 from		United States — Per cent change — January 1953 from	
	mo. ago	year ago	mo. ago	year ago
OUTPUT				
Manufacturing production...	0*	+ 3*	0	+ 8
Construction contracts‡......	+ 7	+58	− 5	+20
Coal mining............	−13	−31	− 9	−23
EMPLOYMENT AND INCOME				
Factory employment.........	0*	+ 2*	0	+ 5
Factory wage income.......	+ 1*	+10*	...	...
TRADE**				
Department store sales.......	0	+ 1	− 3	+ 2
Department store stocks......	+ 1	− 1	+ 3	+ 4
BANKING (All member banks)				
Deposits...............	− 3	+ 4	− 4	+ 4
Loans...............	0	+13	− 1	+11
Investments...............	− 1	0	− 1	+ 2
U.S. Govt. Securities......	− 1	0	− 1	...
Other...............	0	+ 1	+ 1	+ 7
Check payments............	−14§	0§	−13	+ 8
PRICES				
Wholesale...............	...	...	0	− 3
Consumer	0†	+ 1†	0	+ 1

*Pennsylvania †Philadelphia §20 Cities
**Adjusted for seasonal variation. ‡Based on 3-month moving averages.

LOCAL CHANGES	Factory* — Employment — Per cent change Jan. 1953 from		Factory* — Payrolls — Per cent change Jan. 1953 from		Department Store — Sales — Per cent change Jan. 1953 from		Department Store — Stocks — Per cent change Jan. 1953 from		Check Payments — Per cent change Jan. 1953 from	
	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago
Allentown..	−1	−1	+3	+ 7	...	...	...	...	−10	+ 2
Harrisburg..	−1	+8	0	+16	...	...	...	...	−11	+ 1
Lancaster...	0	+6	−2	+15	−56	+ 4	0	+ 2	− 8	0
Philadelphia	0	+6	−1	+15	−57	− 3	− 4	− 5	−15	0
Reading....	0	+2	−1	+10	−58	+ 3	−2	+ 1	−21	− 1
Scranton....	0	+5	0	+10	...	...	...	...	− 3	+ 3
Trenton.....	0	+7	0	+21	−62	+ 5	−7	+ 1	− 5	+14
Wilkes-Barre	0	+5	+2	+14	−57	+ 9	−2	+10	−11	− 5
Wilmington.	+1	+8	0	+19	−58	+ 4	−8	+ 3	−22	−10
York.......	+1	+5	+1	+12	−59	+10	+4	+ 3	− 8	+24

*Not restricted to corporate limits of cities but covers areas of one or more counties.

THE THIRD FEDERAL RESERVE DISTRICT